

STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: ALVIN JOSEPH BOUTTE, Jr.) File No. 1100227
)

Temporary Order of Prohibition

TO THE RESPONDENT: Alvin Joseph Boutte, Jr. CRD No. 2739783
505 N. Lake Shore Dr., Apt 511
Chicago, IL 60611

C/o Cannon D. Lambert, Sr.
Karchmar and Lambert, PC
211 W Wacker, Suite 550
Chicago, IL 60606

C/o Mr. Calvin B. Grigsby
President
Grigsby and Associates
311 California St, Suite 320
San Francisco CA 94104

C/o Mr. Stanly E. Grayson
Vice Chairman and COO
M.R. Beal & Company
110 Wall Street
New York, NY 10005

On information and belief, I, Jesse White, Secretary of State for the State of Illinois, through my designated representative, having been fully advised in the premises by the staff of the Illinois Securities Department, Office of the Secretary of State, herein find:

1. That Respondent, Alvin Joseph Boutte, Jr. ("Boutte") was registered in the State of Illinois as a salesperson for Grigsby and Associates, an Illinois

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registered Dealer, from July 15, 2010 to September 21, 2011.

2. Grigsby and Associates is a registered Dealer in Illinois from April 13, 2007 to the present and according to its web site is a "full-service investment banking firm providing financial advisory and investment banking services to state and local governments and corporations."
3. In the State of Illinois, this included financial services related to bond offerings by State of Illinois agencies and municipalities including the Illinois Student Assistance Commission (ISAC).
4. Boutte, until he was terminated September 21, 2011, was located in the Chicago Office of Grigsby and Associates as its Managing Director.
5. Sometime in the second half of 2007, Boutte began soliciting investors including ISAC to purchase restricted stock in ShoreBank Corporation (SBC), the bank holding company for ShoreBank, which, during the relevant time period, was a State bank registered with the Division of Banking, Department of Financial and Professional Regulation in the State of Illinois.
6. At all times relevant, SBC was not a publically traded stock traded on any exchange but rather was a privately held corporation. Its stock was not registered with the Illinois Securities Department nor the Securities and Exchange Commission but rather relied upon exemptions from registration provided by State and Federal Securities laws. These exemptions restricted the manner and type of sales of SBC stock and therefore reduced its liquidity.
7. The Illinois Student Assistance Commission is a State agency whose mission is to administer and manage various college student financial assistance programs including "College Illinois!" a pre-paid tuition program under Section 529 of the Internal Revenue Code.
8. As a pre-paid tuition program, College Illinois! invests and manages an investment fund of about \$1.35 billion used to pay tuition for students who have purchased pre-paid tuition contracts through College Illinois.

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9. Working with SBC to solicit investors, Boutte began preparation of a self-styled offering analysis of an investment in SBC for potential investors (the "Offering Analysis").
10. Boutte completed his first version of an Offering Analysis relating to an investment in SBC dated January 3, 2008. The January 3, 2008 Offering Analysis stated as follows:

"This analysis was prepared by Grigsby & Associates inc. ("Grigsby") at the request of Illinois Student Assistance Commission as part of its assessment of an investment in The ShoreBank Corporation ("ShoreBank" or "Company"). Our objective is to highlight the value and risks of participating in the ShoreBank Corporation Offering referenced herein, and commenting on the appropriateness of the pricing of that investment."
11. During the time period he was preparing the January 3, 2008 Analysis, Boutte and Grigsby and Associates did not have any written contract with ISAC.
12. Approximately January 4, 2008, ISAC issued a Request for Proposals (RFP) relating to the offering of financial services regarding the underwriting of bonds to be issued by ISAC and for interest rate exchange agreements. Ten financial services firms submitted to ISAC proposals pursuant to the January 4, 2008 RFP including Grigsby and Associates.
13. The proposal of Grigsby and Associates was the sole proposal that included an unsolicited provision stating that the firm would also provide: "Financial Advisor, investment banking and analysis services related to investment of 529 prepaid tuition plan assets in illiquid assets and/or private placement in new asset categories charges: 1.25 to 2% of invested assets."
14. After submitting his proposal to the January 4, 2008 RFP, Boutte continued working with SBC and ISAC in order for ISAC to invest in SBC.
15. At the time of Boutte's solicitation efforts, ISAC's College Illinois! investment policy which set forth guidelines for acceptable investments and maximum and target percentage of holdings in order to meet projected investment returns and to ensure prudent diversification of the College Illinois! Fund, did not

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allow investments in direct participation in private placement offerings of restricted stock in companies.

16. This meant that in order for College Illinois! to invest in the stock of SBC directly, the College Illinois! investment policy would have to be revised to allow such investment and the revision approved by ISAC Commission Members.
17. Boutte recommended to ISAC that College Illinois! change its investment policy and provided advice and input to ISAC regarding specific revisions to the College Illinois! investment policy which would allow an investment by College Illinois! in SBC.
18. Concurrently, because the January 3, 2008 Offering Analysis was already out of date, Boutte began making revisions to this report. The first revised report was dated June 6, 2008 and was submitted to ISAC approximately June 24, 2008. Except for changes to include updated financial statements provided by SBC and the inclusion of various media articles, the June 6, 2008 report was virtually identical to the January 3, 2008 report.
19. On August 6, 2008, the ISAC board approved an investment in two installments in SBC subject to the conditions of a term sheet for the investment which included a completion of a legal review and opinion. The first investment of \$12.8 million was funded and completed on September 30, 2008.
20. Approximately September 11, 2008, Boutte delivered a third SBC Offering Analysis dated September 9, 2008. Similar to the second version, it was virtually identical to the previous versions with only updated financial information.
21. After approval of the investment by the ISAC Board, several significant events took place that should have resulted in Boutte advising ISAC not to invest in SBC as follows:
 - a. In all three versions of Boutte's SBC offering analysis he notes that SBC is subject to examinations by the FDIC and its State bank regulator and that the examination results are reported as CAMEL ratings from 1-5 (1 being the best; 5 the worst).

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- b. In his September 9, 2008 report, he states that ISAC should obtain SBC's most recent CAMEL Rating before finalizing the investment stating:

"If the institution has a Composite rating of 3 or less, some additional time should be spent with Management to clarify certain deficiencies prior to making an investment. If it is a 2 or better, and there are no material deviations in the anticipated component ratings (as we outlined), reliance on Management assertions would be more reasonable."

- c. Similar language is also contained in the Grigsby and Associates January 3, 2008 and the June 6, 2008 reports drafted by Boutte.
- d. Approximately August 26, 2008, Boutte and ISAC were informed that the CAMEL rating for Shore Bank included a rating for Asset Quality that was a 3 (a lower rating). Rather than advising and conducting additional inquiry for the reasons of the lower CAMEL rating, Boutte argued that no further due diligence was necessary and that ISAC should go forward with its September 30, 2008 date to close on its investment in SBC.
- e. Approximately, August 28, 2008, ShoreBank executives informed Boutte that ShoreBank had missed its financial performance projections. Boutte failed to advise ISAC of the significance of this financial setback by ShoreBank but rather stated it was "No big deal" and that the bank could "weather any storm."
- f. In all three versions of his Offering Analysis Boutte stated and provided statistics regarding bank failures in the United States writing that only 3 banks had failed in the last 3 year period of 2005-2007.
- g. By September 8, 2008, the date of Boutte's last Offering Analysis, 10 banks in the U.S. had failed and by September 30, 2008, the date of

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the ISAC investment in SBC, 13 banks had failed.

22. In August of 2010, ShoreBank was closed by the FDIC, wiping out the complete \$12.8 million investment by ISAC.
23. Despite these warning signs, Boutte in a prudence opinion letter dated September 11, 2008 stated as follows:

"We have now concluded our 9 month due diligence process as your advisors on the proposed investment in Shorebank Corporation by the Illinois Student Assistance Commission on behalf of its' Pre-paid College Trust Fund.

Based on the information we gained during this extensive process and our understanding of the investment objectives of your fund it is the Opinion of Grigsby & Associates that this investment as proposed is a prudent investment for ISAC's Pre-paid College Trust Fund. We recommend it without qualification."

24. After the closing of the SBC investment on September 30, 2008, Boutte submitted an invoice for his work on the Offering Analysis. The invoice was not itemized and did not provide any accounting of time nor services rendered in preparation by Boutte or any other person of Grigsby and Associates of the Offering Analysis. Rather, the amount received was a contingent fee and simply references the investment amount of \$12,780,000 and a formula of 2% of the invested amount resulting in a final fee of \$255,600. ISAC paid Grigsby and Associates this total fee amount sometime in December of 2008.
25. Not only was Boutte's fee contingent on the closing of ISAC's SBC investment, but unbeknownst to ISAC and its Board, Boutte was also soliciting other investors to invest in SBC and working with SBC to bring these other investors to SBC. According to Boutte, these investors' investment was contingent upon the ISAC investment.
26. On September 2, 2011, the Illinois Securities Department (the "Department") pursuant to its

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authority under Section 11 of the Illinois Securities Act issued a subpoena for testimony and records to Boutte with an appearance and response date of September 21, 2011 at 10:00 am at the Department's Chicago Office (the "Subpoena").

27. On September 19, 2011 an attorney for Boutte submitted an entry of appearance but did not request a change of date nor time for the appearance under the Subpoena. Neither Boutte nor his counsel appeared before the Department on September 21, 2011 at 10:00 am in the Chicago office as required by the Subpoena.
28. On September 21, 2011, Counsel for the Department at approximately 10:30 A.M. contacted the law firm of Boutte's attorney and requested to speak to Boutte's attorney. Counsel was advised that the attorney was not available. Counsel advised the law firm's personnel that a Subpoena had been issued for their client, Boutte, and neither Boutte nor his attorney had appeared at the Department's Chicago office.
29. Counsel for the Department requested a call back from Boutte's attorney that same day, September 21, 2011. No communication from the law firm nor Boutte's attorney was received that day.
30. As an investment adviser to the Illinois Student Assistance Commission, Boutte had a fiduciary duty to ISAC and to the College Illinois! Fund to provide investment advice and recommendations that were in the best interests of his client, ISAC and College Illinois! Fund.
31. The recommendations and investment advice to the Illinois Student Assistance Commission regarding the proposed investment in ShoreBank Corporation was unsuitable and in violation of Rules 130.850 and 130.853 of the Rules and Regulations Under the Illinois Securities Law of 1953, 14 Admin Code 130.100 et seq.
32. Boutte breached his fiduciary duty to ISAC by:
 - a. Failing to prepare a complete and accurate Offering Analysis that fairly and objectively

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analyzed the rewards and risks of the SBC offering;

- b. Entering into a contingent fee arrangement for due diligence and financial advisory services that was based upon the amount invested and would result in his receiving payment only if the investment that he was analyzing and advising was made by ISAC and the College Illinois Fund, his clients;
 - c. Failing to disclose to ISAC and its board that he was soliciting other investors to invest in SBC and working with SBC to bring additional investments by other investors contingent upon the ISAC investment; and
 - d. Recommending to ISAC to invest in an unsuitable, not in the best interests of ISAC investment despite clear evidence that the SBC investment was not a prudent investment for the College Illinois! Fund.
33. Boutte also made material misrepresentations and omissions as follows:
- a. Misrepresenting and omitting material information about the safety and soundness of investing in SBC;
 - b. Failing to inform ISAC that he was soliciting other investors in ShoreBank whose investment was contingent upon the ISAC investment; and
 - c. Failing to inform ISAC of the inherent conflicts created by the contingent fee arrangement.
34. That by virtue of the foregoing the Respondent has violated sections 12.A, D, F, G, H, I and J of the Illinois Securities Law of 1953 815 ILCS 5/1 ("the Act").
35. That Section 11.F.(2) of the Act provides, inter alia, that the Secretary of State may temporarily suspend or prohibit the offer or sale of securities and or the business of rendering investment advice by any person if the Secretary

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of State in his or her opinion, based upon credible evidence, deems it necessary to prevent an imminent violation of the Act or to prevent losses to investors which the Secretary of State reasonably believes will occur as a result of a prior violation of the Act.

36. That based upon the foregoing, the Secretary of State deems it necessary, in order to prevent imminent and additional violations of the Act, and to prevent losses to investors as a result of the referenced prior violations of the Act, to enter an order pursuant to the authority granted under Section 11.F of the Act which prohibits the Respondent from offering and/or selling securities or the business of rendering investment advice in the State of Illinois.
37. That based upon the credible evidence available to the Secretary of State, the entry of this Temporary Order is in the public interest and is consistent with the purposes of the Act.

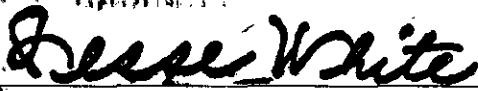

NOW THEREFORE, IT IS HEREBY ORDERED THAT: pursuant to the authority granted by Section 11.F of the Act, Alvin Joseph Boutte Jr. is hereby PROHIBITED from offering and/or selling securities and from the business of rendering investment advice in or from the State of Illinois until further order of the Secretary of State.

NOTICE is hereby given that the Respondent may request a hearing on this matter by transmitting such request in writing to Securities Director, Illinois Securities Department, 300 W. Jefferson St., Suite 300A, Springfield, Illinois 62702. Such request must be made within thirty (30) days of the date of entry of this Temporary Order. Upon receipt of a request for hearing, a hearing will be scheduled. Request for hearing will not stop the effectiveness of this Temporary Order and will extend the effectiveness of this Temporary Order for ninety days from the date the hearing request is received by the Department.

FAILURE BY ANY RESPONDENT TO REQUEST A HEARING WITHIN THIRTY (30) DAYS AFTER ENTRY OF THIS TEMPORARY ORDER SHALL CONSTITUTE AN ADMISSION OF ANY FACTS ALLEGED HEREIN AND CONSTITUTES SUFFICIENT BASIS TO MAKE THE TEMPORARY ORDER FINAL.

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ENTERED: This 3rd day of October, 2011

 
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Secretary of State
State of Illinois

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